MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BBF3034–ANALYSIS AND VALUATION OF FINANCIAL STATEMENTS

(All sections / Groups)

6 JUNE 2018
9.00 a.m–11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 4 Questions only.

2. Attempt all the **FOUR** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a. Business analysis is a process of evaluating the firm's economic prospects and risks. Identify and explain the **FIVE (5)** main activities in the business analysis process. (10 marks)

b. As a financial analyst, you have obtained the following details about Isha Corporation. Isha Co. started its operations by raising RM200,000 in cash (40% from the issuance of 7% bonds at par, 10% from preferred shares issuance and the balance through the issuance of common shares equity. The interest on the bond is paid on the last day of the year.

The entire cash amount of RM200,000 was used to buy a building. The building is rented out and Isha receives RM11,000 per year rental income on the last day of every year. The building has a useful life of 40 years with a salvage value of RM20,000. Isha uses straight line technique to depreciate its fixed assets.

At the end of Year 1, the market value of the building had appreciated by 25%. You are required to compute the economic income, accounting income and free cash flow for Isha Co. at end of year 1. (11 marks)

c. Explain the **TWO (2)** accelerated depreciation methods. (4 marks)

(Total: 25 marks)

QUESTION 2

a. Below are selected income statement and balance sheet data for Company XYZ and Company ABC.

	Company XYZ	**Company ABC**
Sales	RM5,000,000	RM10,000,000
Net operating profit	RM500,000	RM1,200,000
Net Income	RM100,000	RM800,000
Beginning Operating assets	RM3,000,000	RM2,000,000
Ending Operating assets	RM4,000,000	RM3,000,000
Beginning Operating Liabilities	RM1,000,000	RM800,000
Ending Operating Liabilities	RM2,000,000	RM1,000,000
Beginning Common Equity	RM1,500,000	RM1,000,000
Ending Common Equity	RM1,800,000	RM1,500,000

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Assume a corporate tax rate of 35%. Compute XYZ's and ABC's return of net operating asset (RNOA) and return on common equity (ROCE). (20 marks)

b. Explain the differences between comparative financial statement analysis and common-size financial statement analysis. (5 marks)

(Total: 25 marks)

QUESTION 3

a. Sharewin Corporation is listed in the Main Board of the Bursa Malaysia. The company started its operation in 2004. For the year ending 31st December 2017, Sharewin reported earnings of RM30,000. The dividend payout ratio for year 2017 was 60%. The company also had a book value of equity of RM250,000 as at 31st December 2016 with 10,000 shares outstanding.

As a financial analyst, you expect the company's earnings to grow at 5% a year in perpetuity. The firm is also expected to maintain a constant dividend payout ratio of 60% every year. The company's cost of debt is 8% and cost of equity is 10%. Determine the company's fundamental value per share as at 31st December 2017 using the residual income valuation model. (11 marks)

b. Indicate whether each of these transactions/events is (i) source of cash or use of cash, and (ii) placed under operating section, investing section or financing section of the statement of cash flow.

(1) Decrease in accounts payable
(2) Issuance of bonds
(3) Purchase of building
(4) Dividend payment
(5) Increase in inventory
(6) Sales of land
(7) Purchase of treasury stock

(14 marks)

(Total: 25 marks)

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QUESTION 4

a. Explain (with a numerical example) why return on assets (ROA) is preferred over return on equity (ROE). (5 marks)

b. Shown below are the selected income statement and balance sheet data for Santhev Corporation for year 2017.

Sales	RM2,000,000
Gross profit	75% of sales
Beginning accounts receivables	RM100,000
Ending accounts receivables	RM150,000
Beginning inventories	RM250,000
Ending inventories	RM350,000

Using the data above, determine the following:

i. Collection period (4 marks)
ii. Days' sales in receivables (2 marks)
iii. Are your answers for (i) and (ii) the same? Why? (3 marks)
iv. Days to sell inventory (4 marks)
v. Days' sales in inventory (2 marks)
vi. Are your answers for (i) and (ii) the same? Why? (3 marks)

c. It is well known that there is a positive relationship between risk and expected return. The total risk can be decomposed into two general categories of risk. Identify the **TWO (2)** categories. (2 marks)

(Total: 25 marks)

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